ESO 200

KARL'S CAPITAL SUPERMARKET

A Case Study of an Independent
Retail Food Store

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KARL'S CAPITAL SUPERMARKET

Karl's Capital Supermarket is one of a group of eight supermarkets, five of which are located on the perimeter of a large metropolitan area. The group is supplied by a local grocery wholesaler who also supplies other independent stores. The wholesaler supplies two additional groups with a total of 75 stores and some 200 unaffiliated non-member stores. The headquarters staff of the wholesaler includes a general manager, director of marketing, sales manager, coordinator and director of advertising, art director, merchandising manager, data processing manager and buyer, warehouse superintendent, grocery buyer, frozen foods and dairy buyer. The Capital Supermarket group is loosely organized with opportunities for a common advertising program.

Karl's store is located in a neighborhood shopping center. The store was opened in January, 1970, with 10,500 square feet of total store and about 8500 square feet in the sales area. The store had a grand opening of about $45,000. About two years later the wholesaler took over the store because of losses related to a low sales volume. About one year later, Karl took over management of the store with freedom to do what was necessary to build store volume and profitability. At this time the store sales were down to $10,000 per week. Store hours had been 9:00 a.m. to 9:00 p.m. seven days a week. In September, store hours were shifted to 9:00 a.m. to 11:00 p.m. six days a week and 10:00 a.m. to 10:00 p.m. on Sunday. At this time Karl assumed all obligations and took over as owner. By August, weekly sales had increased to $16,000, by late 1973 reached break even, and turned profitable in early 1974 with a sales volume of $28,000. It is at this point that the store will be looked at in more detail to consider changes that will keep sales volume growing and increase profitability.

At this time, residences in the area--mostly single family--are being built rapidly. When the store had first been opened, it was on the growing edge of the area. The growing edge is now well past the store's location. There are new developments planned which include both apartment complexes and the newer style condominiums within a mile or mile and one-half of the store site (See map). The area between Karl's and the freeway to the north will be completely developed within five years.

The leading store (identified as C on the map) in the area is located across the intersection from Karl's store. This is a 28,000 square foot food store with bakery and deli. It is operated by a local chain, generally regarded as one of the better chain operations in this area. Sales volume is generally regarded as above $150,000 per week. Hours are 9:00 a.m. to 9:30 p.m.

weekdays and 10:00 a.m. to 6:00 p.m. on Sunday. This chain's emphasis tends toward a quality store program rather than intense price competition.

A new neighborhood shopping center adjacent to the one Karl is in was developed. This shopping center opened in early 1973 with a strong, highly regarded independent operator associated with a national voluntary group with a 13,000 square foot store with bakery and deli. This store was his second and is identified on the map as Store B.

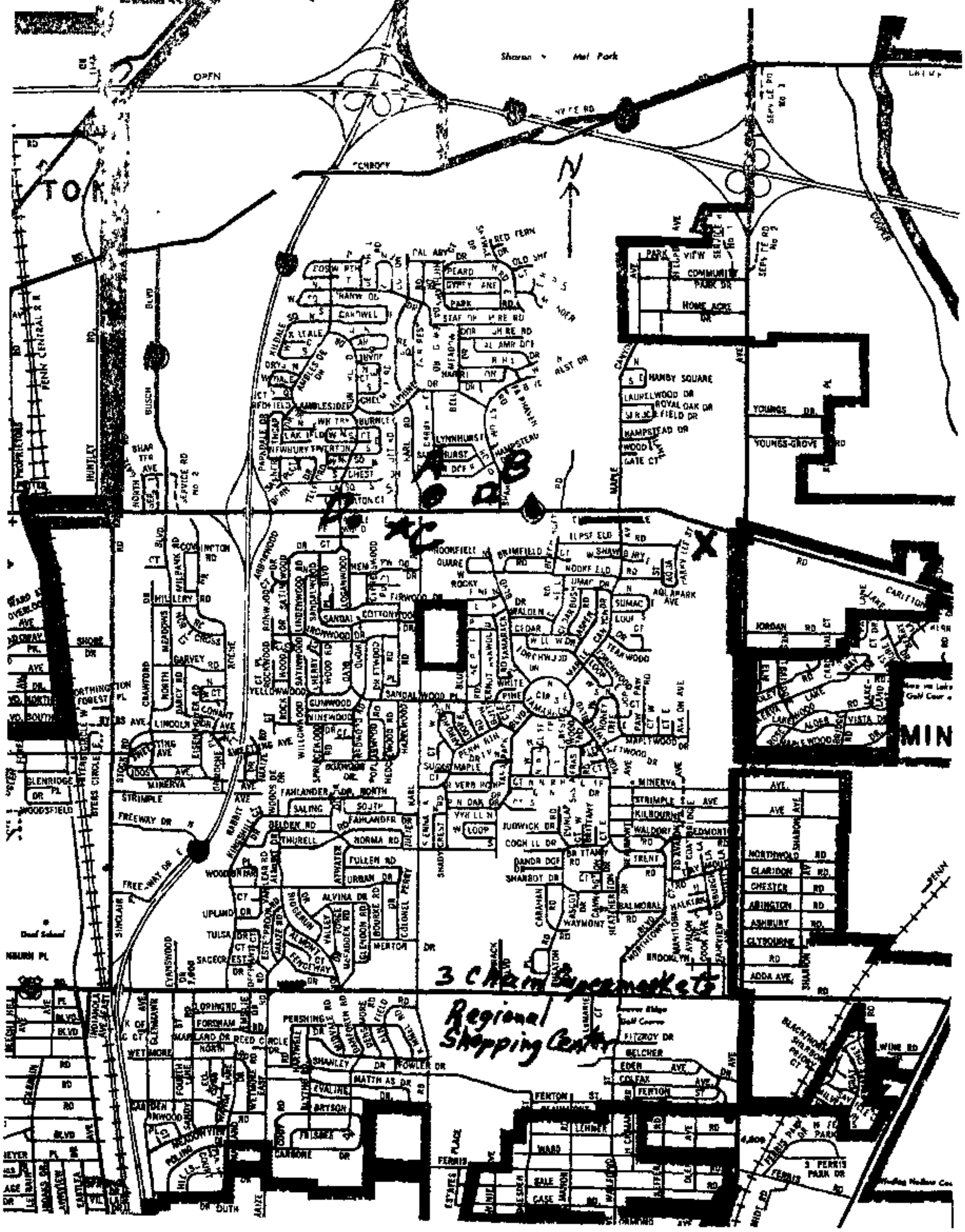
Store D on the map is a service meats--convenience store combination with a good meat program and seems to be well accepted.

A national chain is about to open a 32,000 square foot Super Store, all food operation about one mile east of Karl's store. This chain has an advertised grocery discount program. The local chain across the street is also an all food operation since they operate a discount store in their shopping center.

Karl's store feels that his niche in the market is one of a low margin, high volume operation competing with the new independent and the local chain. Karl is not satisfied with the price programs of the wholesale house. The wholesaler has a choice of three price programs but these do not seem well adapted to his situation, nor do the programs respond quickly enough to changes in competition, to customer changes or to the increasingly volatile food price changes.

A-Karl's Capital Supermarket
B-New Independent Supermarket
C-Large leading local Chain (28000')
D-Superette size service meats
X - New Proposed Superstore - National Chain

Scale in Miles
0 1/4 1/2 3/4 1



In this setting, Karl has initiated his own pricing program. To implement this his own pricing, strategy and advertising program have been developed. Each of the dairy, produce, meat, frozen food and grocery managers are given gross margin targets and prices are established to meet these targets. Karl supervises the process and is beginning to use a second wholesaler as a grocery supply house. He is also putting together his own four page handbill with a copy to the printer on Tuesday with advertised prices to be effective Monday through Saturday. His group (Capital) does no newspaper advertising. About 8,000 of these handbills are distributed in the trading area. He also has copies available in the store.

His target gross margins by departments are: 19 percent on meats, 22 percent on produce, 20 percent on frozen foods, 14 percent on groceries and 15 percent on dairy, aiming at 16-17 percent for the store. When asked whether the department managers handled the price program satisfactorily or whether they made major errors, Karl responded that mistakes in judgment did sometimes happen--once. The system from his viewpoint is fairly satisfactory. Karl's assistant manager has responsibility for the grocery department.

He indicated that his part-time help tended to become full time, and that a few employees may get in considerable overtime if their productivity is high.

Meat distribution in the store has been close to 25 percent, and produce about 6 percent. The meat department trims closely, raising some questions about whether his desired gross margins are high enough. In this period of uncertainty of supply and rapidly changing price, he has three beef suppliers, two pork suppliers, and a number of processed meat suppliers. And, his meat manager has been able to buy the kind and amount of fresh meat required.

His produce comes from a local produce house.

The neighborhood shopping center has a discount house next door to the supermarket with a drug store on the other side. Other stores in the center are a restaurant, laundromat, and other convenience type stores. One of the developing problems is the congested parking area adjacent to his store, and the reluctance of the shopping center operator to take care of problems.

His operating statement at this time (early 1974) is outlined below:

	Operating Statement
Sales	100.00 %
Cost of Goods Sold	83.10
Gross Margin	16.90
Expenses--Controllable	
Wages	6.39 %
Manager	.92
Assistant	.70
Advertising	1.80
Supplies	.80
Repairs--Maintenance	.40
Other Expenses	1.10
	12.11

Operating Statement (Continued)

Expenses--Non-Controllable	
Rent	1.10 %
Taxes	.60
Insurance	.24
Depreciation	.72
Utilities	.83
Accounting--legal	.18
Total Non-Controllable	3.67
Total Operating Expense	15.78 %
Net Operating Profit	1.12
Interest Expense	.35
Net Profit	.77
Other Income	.18
Income Before Taxes	.95

Department operating ratios indicated that meat distribution is down to 22.5 percent and produce 5.6 percent. Inventory turns in groceries were 18.3, meat 69, and produce 63. Labor expense in groceries is 3.1 percent, meat 7.9 percent, and produce 11.9 percent. Front end labor expense is 2.9 percent of total sales.

Wage cost per hour in groceries is $2.54, meat $3.74, produce $2.89, and checkout $2.25. Sales per man hour in groceries is $74.26, $45.15 in meats, $24.42 in produce and $81.00 checkout.

Karl apparently does an excellent job in identifying new items with sales potential. Similarly, he moves slow items out quickly. His "health food" section was discontinued after the initial sales spurt slowed down to a walk.

He takes part in a number of local activities related to public service. He has appeared on local PTA programs on food store--customer problems, supports local bowling and similar activities with door prizes but is increasingly less inclined to support out-of-the-area charity and fund drives.

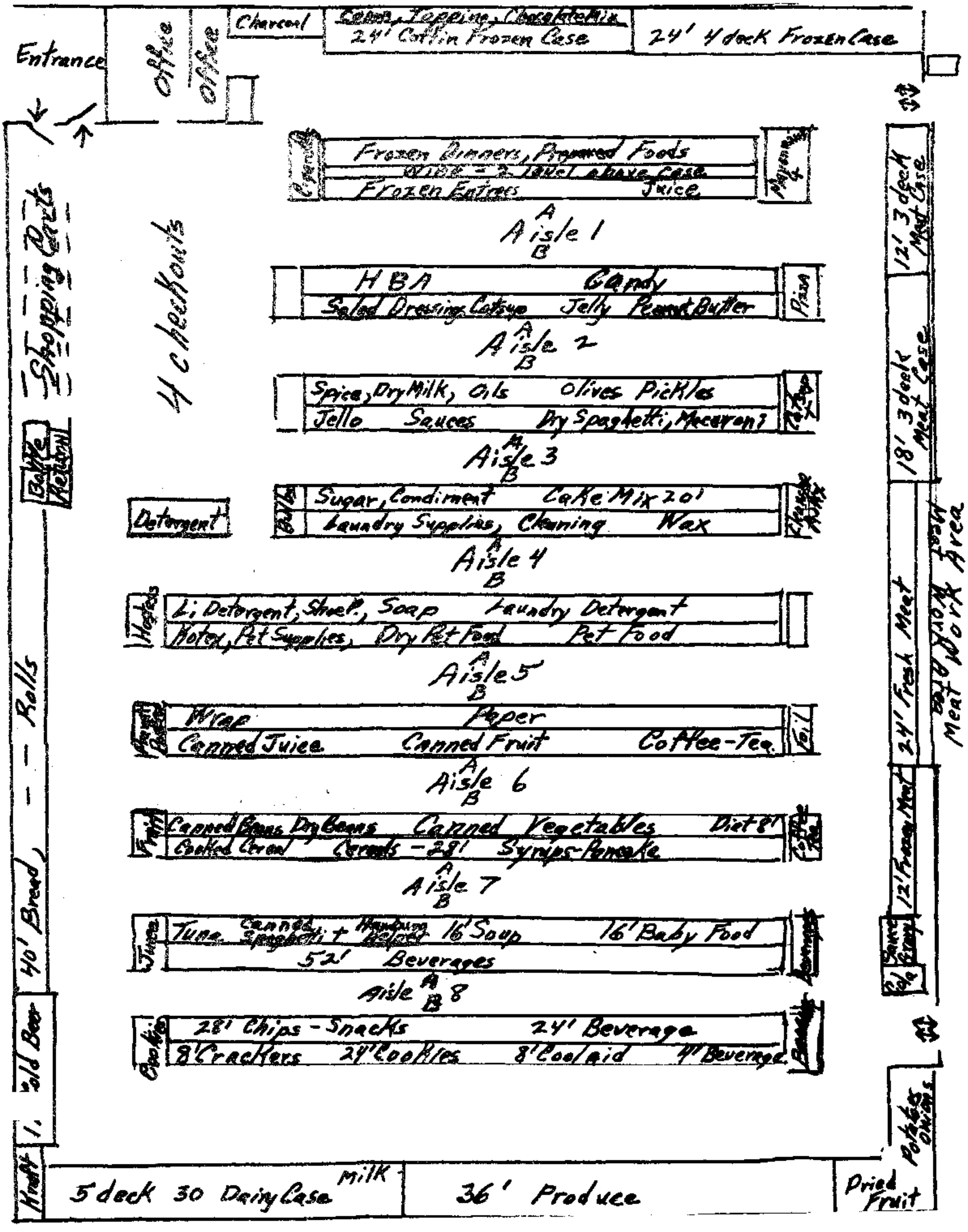
Some of his part-timers are school work-study students which he starts at minimum wage. For checkout operators he starts women 30-40 cents higher to get desirable people. Karl has kept considerable emphasis on front end service. He cashes personal checks, accepts both Master Charge and Bank Americard. The credit cards account for less than 10 percent of sales.

ALL groceries are carried to cars in the parking lot. Karl himself is active at the front end greeting customers and occasionally carrying out groceries himself. Customers seem delighted with this "attention" both in service and in the attitude emphasized by Karl in greeting people and talking with their children. Employees report that the front end comes first.

The income level of the area is above average with median family incomes just above $13,500. The families tend to be young with children--average family size is 3.6. A large proportion of the families (40 percent) have a working wife.

A sketch of the store layout appears on the following page.

Karl feels that with the present program he can take store sales to above $50,000 per week. When he reaches this goal, he will add a store manager to his management team. His program for doing this is high volume--low margin with service, and he believes he can hold this volume against the existing competition. He would like more sales area but in this location


Entrance
Office
Office
Charcoal
24' Coffin Frozen Case
24' 4 deck Frozen Case
Frozen Dinners, Prepared Foods
Frozen Entrees
Juice
Aisle 1
HBA
Candy
Salad Dressing Catsup
Jelly
Peanut Butter
Pizza
Aisle 2
Spice, Dry Milk, Oils
Olives
Pickles
Jello
Sauces
Dry Spaghetti, Macaroni
Aisle 3
Sugar, Condiment
Cake Mix 20'
Laundry Supplies, Cleaning
Wax
Detergent
Aisle 4
Li Detergent, Shoe P., Soap
Laundry Detergent
Kotex, Pet Supplies, Dry Pet Food
Pet Food
Aisle 5
Wrap
Paper
Canned Juice
Canned Fruit
Coffee-Tea
Foil
Aisle 6
Canned Beans Dry Beans
Canned Vegetables
Diet 8'
Cooked Cereal
Cereals - 28'
Syrups-Pancake
Aisle 7
Tuna
16' Soup
16' Baby Food
52' Beverages
Aisle 8
28' Chips - Snacks
24' Beverage
8' Crackers
24' Cookies
8' Coolaid
4' Beverage
4 checkouts
Shopping Carts
40' Bread
Rolls
12' 3 deck Meat Case
18' 3 deck Meat Case
24' Fresh Meat
12' Frozen Meat
Meat Work Area
Potatoes Onions
Dried Fruit
36' Produce
5 deck 30 Dairy Case
Milk

this does not appear to be possible.

When he first took over the store he was getting one grocery delivery (Tuesday) per week, with a Friday drop on advertised specials. At the present time, his limited backroom space is becoming very cramped. He is now getting two deliveries per week plus the additional drop.

His suppliers hold him in high regard as a retailer who "handles customers with kid gloves." New employees say the emphasis is "the customer comes first." Personal observations indicate that Karl may be found at any part of the store--at any time--talking with customers, conferring with department managers, checking on orders and deliveries, and establishing work priorities.

When asked what effect the new super store will have on his business, Karl estimates that he will lose 10-15 percent of sales volume for a few weeks. He follows this up with the statement that, "I'll see to it that my volume is back within six weeks."

One supplier indicated that his impression of the store could best be summed up with a recent experience. He had telephoned Karl at the store and there was an interval before Karl reached the phone. The supplier said in this interval all he could hear were checkers and customers talking and laughing while the cash registers were ringing.

QUESTIONS FOR DISCUSSION

1. Should the Capital group cooperate more closely with each other and with the wholesaler?
2. What changes are possible to make the store more effective?
3. What suggestions do you have about pricing strategy and policy?
4. Should any changes be made in personnel policies?
5. Is a sales goal of $50,000 realistic?
6. Are margins satisfactory?
7. Can productivity be increased? How?
8. If this were your store, what changes would you make?